

AR31

ANNUAL REPORT

For the year ended December 31, 1976

***BLACK HAWK
MINING LTD.***

(No Personal Liability)



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BLACK HAWK MINING LTD.

(No Personal Liability)

AND ITS WHOLLY-OWNED SUBSIDIARY

Officers

W. Noel O'Brien	-	-	-	-	-	-	-	-	-	-	-	President
John S. Grant, Q.C.	-	-	-	-	-	-	-	-	-	-	-	Vice-President
A. F. Risso	-	-	-	-	-	-	-	-	-	-	-	Secretary-Treasurer
D. C. Marshall	-	-	-	-	-	-	-	-	-	-	-	Assistant Secretary-Treasurer

Directors

John S. Grant, Q.C.	-	-	-	-	-	-	-	-	-	-	-	Toronto
J. M. Kirschbaum, LL.D., Ph.D.	-	-	-	-	-	-	-	-	-	-	-	Toronto
John Kostuik, B.Sc.	-	-	-	-	-	-	-	-	-	-	-	Toronto
W. Noel O'Brien, P.Eng.	-	-	-	-	-	-	-	-	-	-	-	Toronto
A. F. Risso	-	-	-	-	-	-	-	-	-	-	-	Toronto

Head Office

Suite 930
Royal Bank Canada Building
1 Place Ville Marie
Montreal, Quebec

Executive Offices

Suite 3900
South Tower
Royal Bank Plaza
Toronto, Ontario
M5J 2K2

Transfer Agent

Guaranty Trust Company of Canada
Toronto, Ontario
Montreal, Quebec

Auditors

Starkman, Kraft, Rothman,
Berger & Grill
Toronto, Ontario

Solicitors

Manley, Grant & Camisso
Toronto, Ontario

Bankers

The Royal Bank of Canada
Toronto, Ontario

Black Hawk Corporation

**a wholly-owned subsidiary of Black Hawk Mining Ltd.
incorporated in the State of Maine, U.S.A.**

Directors and Officers

W. Noel O'Brien, P.Eng., President	-	-	-	-	-	-	-	-	-	-	Toronto
A. F. Risso	-	-	-	-	-	-	-	-	-	-	Toronto
D. C. Marshall, Treasurer	-	-	-	-	-	-	-	-	-	-	Toronto
J. M. Kirschbaum, LL.D., Ph.D.	-	-	-	-	-	-	-	-	-	-	Toronto
Harris L. McLean, Jr.	-	-	-	-	-	-	-	-	-	-	Ellsworth, Maine
Kenneth W. Blaisdell, Clerk	-	-	-	-	-	-	-	-	-	-	Ellsworth, Maine

HEAD OFFICE: 210 Main Street, Ellsworth, Maine EXECUTIVE OFFICES: 4 King Street West, Toronto, Ontario

BLACK HAWK MINING LTD.

(No Personal Liability)

AND ITS WHOLLY-OWNED SUBSIDIARY BLACK HAWK CORPORATION

Directors' Report

The Blue Hill mine, in which your Company has a 40% interest through its subsidiary, Black Hawk Corporation, completed its fourth full year of operations in 1976. Operations are managed by the joint-venture partner, Kerramerican, Inc.

Ore grades were maintained during the year; however tons milled declined to 176,100 tons in 1976 from 211,200 tons in 1975. Market conditions made it necessary to increase the zinc concentrates stockpile to 10,700 tons at year end from 7,150 tons at year end 1975. Effective October 1976 zinc concentrates are being processed by St. Joe Minerals Corporation, Pennsylvania. Copper concentrates are being shipped to the Noranda smelter. It is expected that the zinc concentrates stockpile will be reduced during 1977 under the new smelter contract.

Operating income in 1976, before amortization and interest cost, was \$75,562 compared with \$257,632 in 1975. This reflects higher operating costs and lower production of metals concentrates in 1976. After amortization and interest costs loss for the year before extraordinary items was \$1,131,584 compared with a loss of \$943,421 in 1975. After provision for write-down of deferred expense and interest in the Blue Hill Joint Venture as extraordinary items Black Hawk had a loss of \$2,057,426 for 1976.

There was further review in 1976 of the Carlton zone, south of the shaft, where extensive mineralization has been partially defined at greater depth than the existing workings. Under present circumstances and taking into account the considerable capital monies needed to develop this zone, the Carlton zone is not included in the statement of mineable reserves.

The expectation for 1977 is for Blue Hill mine operations to continue at last year's level. As shown in the accompanying table, reserves in the developed areas of the mine are limited. During the first two months of 1977 approximately 50,000 tons were added to the mineable reserves; however no substantial further increase in mineable reserves can be foreseen at present.

On behalf of the Board of Directors,

Noel O'Brien

President.

Toronto, Canada.
March 25, 1977.

OPERATING RESULTS

		<u>1976</u>	<u>1975</u>
Tons milled:		176,100	211,200
Grades (mill feed)	— zinc	5.1%	4.95%
	— copper	1.2%	1.11%
Metals (in concentrates)	— zinc	16,700,000 lbs.	20,091,000 lbs.
	— copper	3,640,000 lbs.	3,859,900 lbs.
Mill Rate/Operating Day:		957 tons	917 tons
Surface Exploration Drilling (feet)		—	33,688

MINEABLE RESERVES AT YEAR END — 1976

	<u>Tons</u>	<u>% Zinc</u>	<u>% Copper</u>
	(dilution included)		
Zinc Zones	140,200	4.64	1.05
Copper Zones: Second Pond	4,300	—	2.63
Mammoth	74,500	1.35	2.04
TOTAL	219,000*		

* NOTE: Year end total 1975: 525,000 tons.

The 1976 year end reserves reflect deletion, as uneconomic of 185,700 tons grading 1.2% copper and 3.7% zinc reported in the 1975 Annual Report.

*Consolidated Balance Sheet***ASSETS**

		As at December 31	
		1976	1975
Current			
Cash		\$ 58,946	\$ 1,674
Term deposits		230,000	—
Smelter settlements receivable, at estimated net realizable value		257,883	254,857
Concentrates on hand, at lower of cost or net realizable value		877,087	1,147,557
		<u>1,423,916</u>	<u>1,404,088</u>
Interest in Blue Hill Joint Venture (Note 1)		4,077,526	4,905,169
Less: Accumulated amortization		<u>3,627,526</u>	<u>2,717,000</u>
		450,000	2,188,169
Deferred Expenses (Note 1)			
Corporate expenses		—	90,185
Bond discount and financing expenses		—	204,284
		—	<u>294,469</u>
Less: Accumulated amortization		—	187,627
		—	<u>106,842</u>
Other:			
Furniture and fixtures, at nominal value		1	1
Organization expenses, at cost		<u>5,441</u>	<u>5,441</u>
		5,442	5,442
Approved on behalf of the Board:			
A. F. RISSO, Director.			
J. M. KIRSCHBAUM, Director.			
		<u>\$1,879,358</u>	<u>\$3,704,541</u>

See accompanying notes

AUDITOR

We have examined the consolidated balance sheet of Black Hawk Mining Ltd. at December 31, 1976 and the consolidated statements of operations and deficit and in accordance with generally accepted auditing standards, and accordingly included such

In our opinion, these consolidated financial statements present fairly the financial position and the changes in their financial position for the year then ended, in accordance with the preceding year.

Toronto, Ontario.
January 7, 1977.

K MINING LTD.

(Liability)
OWNED SUBSIDIARY

Corporation

Balance Sheet

LIABILITIES

	As at December 31	
	1976	1975
Current		
Accounts payable and accrued charges	\$ 36,150	\$ 29,651
Due to joint venture partner, Kerramerican, Inc.	19,445	149,639
Advances and accrued interest (Note 4)	591,236	464,904
	<u>646,831</u>	<u>644,194</u>
Long-Term Debt (Note 2)		
6½ % Series "A" Debentures	1,965,000	1,965,000
Accrued interest on debentures	2,206,333	1,976,727
	<u>4,171,333</u>	<u>3,941,727</u>
Total Liabilities	<u>4,818,164</u>	<u>4,585,921</u>

CAPITAL DEFICIENCY

Capital (Note 5)		
Authorized		
5,000,000 shares, par value \$1 each		
Issued		
1,200,000 shares for mining claims	1,200,000	1,200,000
400,000 shares for acquisition of wholly-owned subsidiary ...	400,000	400,000
2,719,009 shares for cash	2,719,009	2,719,009
<u>4,319,009</u> shares	<u>4,319,009</u>	<u>4,319,009</u>
Less: Discount thereon	3,720,185	3,720,185
	598,824	598,824
Deficit	(3,537,630)	(1,480,204)
	<u>(2,938,806)</u>	<u>(881,380)</u>
	<u>\$1,879,358</u>	<u>\$3,704,541</u>

financial statements.

REPORT

(No Personal Liability) and its wholly-owned subsidiary Black Hawk Corporation as changes in financial position for the year then ended. Our examination was made tests and other procedures as we considered necessary in the circumstances.

position of the companies as at December 31, 1976 and the results of their operations generally accepted accounting principles applied on a basis consistent with that of the

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL,
Chartered Accountants.

BLACK HAWK MINING LTD.

(No Personal Liability)

AND ITS WHOLLY-OWNED SUBSIDIARY BLACK HAWK CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

	Year Ended December 31	
	1976	1975
Revenue from Metal Sales	\$ 3,148,263	\$ 2,472,911
Expenses		
Cost of sales	3,043,545	2,189,383
Administration	29,156	25,896
	3,072,701	2,215,279
Operating Income Before the Undernoted Items	75,562	257,632
Other Expenses		
Amortization of interest in Blue Hill Joint Venture (Note 3)	910,526	888,753
Amortization of deferred corporate and financing expenses	—	70,074
Interest on debentures	229,606	221,415
Interest — other	67,014	20,811
	1,207,146	1,201,053
Loss for the Year Before Extraordinary Items	1,131,584	943,421
Write-down of interest in Blue Hill Joint Venture (Note 1)	(819,000)	—
Write-off of deferred expenses (Note 1)	(106,842)	—
Loss for the Year	2,057,426	943,421
Deficit, beginning of year	1,480,204	536,783
Deficit, end of year	\$ 3,537,630	\$ 1,480,204
Loss per Share Before Extraordinary Item	26.2¢	21.8¢
Loss per Share	47.6¢	21.8¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Source of Working Capital	Year Ended December 31	
	1976	1975
From Operations		
Loss for the year	\$(2,057,426)	\$ (943,421)
Less: Items not involving a current outlay:		
Amortization of interest in Blue Hill Joint Venture	910,526	888,753
Amortization of deferred expenses	—	70,074
Interest on debentures	229,606	221,415
Write-down of interest in Blue Hill Joint Venture	819,000	—
Write-off of deferred expenses	106,842	—
	8,548	236,821
Application of Working Capital		
Repayment of debenture	—	20,000
Share of joint venture exploration expenditures	—	84,349
Share of joint venture fixed asset expenditures (recovery)	(8,643)	220,179
	(8,643)	324,528
Increase (Decrease) in Working Capital	17,191	(87,707)
Working Capital, beginning of year	759,894	847,601
Working Capital, end of year	\$ 777,085	\$ 759,894

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1976

1. Pursuant to an agreement dated September 1, 1970 (and subsequently amended), a joint venture in which the company's wholly-owned subsidiary has a 40% interest has been formed with Kerramerican, Inc. (a subsidiary of Kerr Addison Mines Limited) as at November 3, 1972 to explore, develop and work the subsidiary's properties in Blue Hill, Maine.

The subsidiary has contributed to such joint venture all its mining properties, buildings, equipment and supplies in Maine. The cost of the company's investment in the joint venture is its cost of the properties including deferred expenses as follows:

	1976	1975
Mining properties, buildings and equipment	\$1,228,339	\$1,236,982
Deferred exploration and development expenses	1,902,677	1,902,677
Deferred administrative expenses	1,765,510	1,765,510
	<u>4,896,526</u>	<u>4,905,169</u>
Less: Write-down to estimated net realizable value	819,000	—
	<u>\$4,077,526</u>	<u>\$4,905,169</u>

Based on mineable reserve estimates, reserves in the main zones currently being mined or accessible to mining are sufficient to continue operations to early 1978. The company has outlined additional mineralization in the adjacent Carlton zone but the economic feasibility of developing and mining this area is still under review. The company has written down its interest in the Blue Hill Joint Venture to \$450,000 to reflect the anticipated loss should the joint venture decide not to develop the Carlton zone. The deferred expenses have been written off as they are not expected to be recovered.

2. (a) Under the provisions of the Trust Indenture dated July 15, 1965, securing the Debentures Series "A":
 - (i) \$5,000,000 6½ % Debentures Series "A" have been authorized maturing June 30, 1974 (payment of which has been deferred as outlined in Note 6);
 - (ii) The company is required to make sinking fund payments on or before April 15 in each year equal to the consolidated net cash flow from operations (as defined) in the preceding twelve month period ending December 31;
 - (iii) The company and any subsidiary may not pay any dividends or make any other distributions on shares without the prior written consent of the debentures holders.
- (b) In accordance with an agreement dated August 7, 1964:
 - (i) Denison Mines Limited (Denison) has purchased \$2,735,000 6½ % Debentures Series "A" and 150,000 shares of the capital stock of the company (valued at \$62,500) for a cash consideration of \$2,666,625, of which \$770,000 has been repaid;

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- (ii) If Denison determines that further work is required on the company's mining lands then Denison agrees to provide the financing therefor through purchase of debentures and shares of the company on the terms and conditions set out in the said agreement.
 - (c) Interest on the 6½ % Debentures due June 30, 1974 is in arrears from January 1, 1967, in the amount of \$2,206,333. The Trust Indenture under which the Debentures were issued provides that the security constituted thereunder becomes enforceable on the happening of certain events of default as therein defined. One of these is default in the making of payment of any interest due and continuation of such default for 15 days after written notice thereof. Such notice has not been given by the Trustee. All of the issued Debentures are held by the major shareholder of the company, Denison Mines Limited.
 - (d) Denison has agreed not to enforce the charges contained in the Trust Indenture during the term of the agreement referred to in Note 1. However, the company will use the proceeds of all monies received from production of the properties to repay the debentures, accrued interest and advances from Denison.
3. The subsidiary was acquired during the year ended April 30, 1965 and the consolidated figures as at December 31, 1976 include the exploration and development expenses and corporate expense of the subsidiary, prior to acquisition.
- The assets and liabilities of the subsidiary company incurred subsequent to the formation of the joint venture with Kerramerican, Inc. have been translated into Canadian dollars at par. Previously, current assets and liabilities were converted at par and long-term assets and liabilities at the rate current at date of expenditure.
- The company amortizes the costs of its interest in the Blue Hill Joint Venture on a unit of production basis as ore is recovered from the mine.
4. Denison has advanced funds to the subsidiary, bearing interest at the rate of 2% above a Canadian chartered bank prime interest rate, which loan is secured by the smelter settlements receivable and inventory of concentrates on hand. At December 31, 1975, the subsidiary was indebted in the amount of \$454,104 including interest incurred to date.
5. The company has reserved 100,000 treasury shares for incentive options exercisable at \$1 per share on dates to be determined by the company. Options were granted on 92,500 shares of which 30,000 shares were exercised in a prior year and 47,500 shares were forfeited.
6. For United States federal income tax purposes the subsidiary has elected to defer exploration and development expenditures incurred in prior years and to deduct such expenses ratably as the minerals or ores benefited are sold.

